

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
AGRE-00 DODE-00 PM-05 H-01 L-03 PA-01 PRS-01
/091 W

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R 081251Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0468
DEPARTMENT TREASURY
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BRUSSELS
AMEMBASSY ROME
AMEMBASSY BERN
AMEMBASSY VIENNA
USMISSION NATO
CINC USAFE RAMSTEIN
CINC USAREUR HEIDELBERG
CINC EUR VAIHINGEN

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USOECD ALSO FOR EMBASSY, USEEC

DEPARTMENT PASS FRB AND CEA

E.O. 11652: N/A
TAGS: ECON, EFIN, GW
SUBJECT: EMBASSY 1977 GERMAN GNP PROJECTION

A. SUMMARY

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1. THE EMBASSY SUBMITS THE FOLLOWING REVISED GNP
PROJECTION.

TABLE I

ESTIMATED 1977 GROWTH OF GERMAN GNP
(PERCENTAGE CHANGES OVER 1976, 1970 PRICES)

PRIVATE CONSUMPTION	3.4
PUBLIC CONSUMPTION	2.0
FIXED INVESTMENT IN EQUIPMENT	3.9
CONSTRUCTION	2.0
INVENTORIES (1)	DM 11.0 BILLION
NET FOREIGN BALANCE (2)	DM 27.7 BILLION

GNP	3.3
4TH QUARTER 1977 OVER 4TH	
QUARTER 1976 GROWTH	3.8 PERCENT

(1) THE SWING IN THE INCREASE FROM 1976 IS
ESTIMATED AT DM 1.7 BILLION AT 1970 PRICES.

(2) THE SWING IN THE NET FOREIGN BALANCE FOR
1976 IS ESTIMATED AT DM 1.7 BILLION AT
1970 PRICES.

END SUMMARY.

B. FIRST HALF OF 1977

2. BECAUSE OF THE CURRENT DIFFICULTIES IN GERMAN
INDUSTRY STATISTICS, BUNDESBANK CALCULATIONS OF
1ST QUARTER 1977 SEASONALLY ADJUSTED GNP ARE NOT YET
AVAILABLE AND ALL PROJECTIONS AT THIS TIME ARE SUBJECT
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TO A PARTICULARLY LARGE MARGIN OF ERROR. WITHOUT
GIVING ANY BREAKDOWN, THE BUNDESBANK HAS INDICATED,
HOWEVER, THAT IT BELIEVES FIRST QUARTER GNP WILL BE
ROUGHLY 4 PERCENT (S.A.A.R.) ABOVE THE FOURTH QUARTER
OF 1976. IN ORDER TO BE ON THE GENEROUS SIDE, WE HAVE
IN THE ABOVE PROJECTION INCORPORATED AN ASSUMPTION OF
4.4 PERCENT (S.A.A.R.) GROWTH DURING THE FIRST QUARTER.
DURING THE SECOND QUARTER OF 1977, SEASONALLY ADJUSTED
INDUSTRIAL PRODUCTION AVERAGED 1.7 (AT NON-ANNUAL RATE)
PERCENT BELOW THE FIRST QUARTER. EVEN ASSUMING SOME
FAIRLY SUBSTANTIAL INCREASES IN THE NON-INDUSTRIAL
PART OF GNP, WE BELIEVE THAT SECOND QUARTER GNP WILL
HAVE DROPPED AT THE VERY LEAST BY 2.0 PERCENT (S.A.A.R.)
BELOW THE FIRST QUARTER LEVEL. ON THIS BASIS WE ARRIVE
AT A FIRST HALF GROWTH RATE OVER THE SECOND HALF
OF 1976 OF 2.9 PERCENT (S.A.A.R.) WHICH BREAKS DOWN
APPROXIMATELY AS FOLLOWS:

TABLE II
ESTIMATED GROWTH OF GERMAN GNP DURING 1ST HALF OF 1977
(S.A.A.R. PERCENTAGE CHANGE OVER 2ND
HALF OF 1976, AT 1970 PRICES)

PRIVATE CONSUMPTION	3.7
PUBLIC CONSUMPTION	1.1
FIXED INVESTMENT IN EUQIPMENT	4.6

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/091 W

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R 081251Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0469
DEPARTMENT TREASURY
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
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CONSTRUCTION	-0.8
INVENTORIES	DM 6.4 BILLION
NET FOREIGN BALANCE	DM 12.7 BILLION

GNP 2.9

C. SECOND HALF OF 1977

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3. WHILE THERE ARE SCATTERED INDICATIONS OF A SLIGHT UPSWING IN GERMAN ECONOMIC ACTIVITY AT THE MOMENT, NO REAL MOVEMENT SEEMS TO BE UNDERFOOT. ON THIS BASIS WE BELIEVE THAT GNP GROWTH DURING THE THIRD QUARTER IS NOT LIKELY TO BE ABOVE 4.0 PERCENT (S.A.A.R.) AND HAVE INCORPORATED THIS ESTIMATE -- WHICH MAY WELL TURN OUT TO BE ON THE GENEROUS SIDE -- INTO OUR PROJECTION. DURING THE FOURTH QUARTER SOME ADDITIONAL STIMULOUS FROM RECENTLY ADOPTED POLICY MEASURES MIGHT BEGIN TO COME INTO PLAY. SOME ANTICIPATORY BUYING IN VIEW OF THE JANUARY 1ST VALUE-ADDED TAX INCREASE MAY ALSO OCCUR AND IFO INVESTMENT SURVEYS INDICATE A VERY GRADUAL INCREASE IN INVESTMENT INTENTIONS. WE HAVE ON THIS BASIS PROJECTED A 9.2 PERCENT (S.A.A.R.) GROWTH RATE FOR THE FOURTH QUARTER. THE RESULT IS A PROJECTED 2ND HALF GROWTH RATE OF 4.0 PERCENT (S.A.A.R.) WHICH BREAKS DOWN ROUGHLY AS FOLLOWS:

TABLE III
ESTIMATED GROWTH OF GERMAN GNP DURING 2ND HALF OF 1977
(S.A.A.R., PERCENTAGE CHANGE OVER 1ST
HALF OF 1977, AT 1970 PRICES)

PRIVATE CONSUMPTION	3.3	
PUBLIC CONSUMPTION	6.8	
FIXED INVESTMENT IN EQUIPMENT	3.9	
CONSTRUCTION	3.9	
INVENTORIES	DM 4.6 BILLION	
NET FOREIGN BALANCE	DM 15.0 BILLION	

GNP	4.0 PERCENT	

D. 1977 AS A WHOLE
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4. EVEN THOUGH WE HAVE TRIED IN THE ABOVE PROJECTION TO ERR -- IF ANYTHING -- ON THE OPTIMISTIC SIDE, WE ARRIVE AT AN ESTIMATED 1977 REAL GNP GROWTH OF ONLY 3.3 PERCENT. TO GET MUCH ABOVE THIS FIGURE A VERY VIGOROUS UPSWING WOULD HAVE TO START WITHIN THE NEXT FEW WEEKS. WHILE FROM THE POINT OF VIEW OF MASS

PURCHASING POWER, EASY CREDIT AND APPROPRIATED FUNDS
AVAILABLE FOR GOVERNMENT EXPENDITURES THIS REMAINS
A POSSIBILITY, IT SO FAR DOES NOT SEEM TO BE TAKING
PLACE. ON THE OTHER HAND, THERE REMAINS CONSIDERABLE
DOWNSIDE RISK IN OUR PROJECTION. A TOTAL 1977 GNP
GROWTH OF ONLY 3 PERCENT OR LESS STILL ALSO REMAINS
A DISTINCT POSSIBILITY.

5. THE PERCENTAGE FIGURES IN OUR PROJECTION CAN BE
SOMEWHAT MISLEADING BECAUSE THE WEAK THIRD QUARTER OF
1976 (AND PARTICULARLY THE -12 PERCENT (S.A.A.R.) DROP

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R 081251Z AUG 77
FM AMEMBASSY BONN
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DEPARTMENT TREASURY
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OF FIXED INVESTMENT DURING IT) DISTORTS THE COMPARISON

WITH THE FIRST HALF OF 1977 WHILE THE WEAK SECOND
QUARTER OF 1977 DISTORTS THE COMPARISON BETWEEN THE
TWO HALVES OF 1977. ON A QUARTERLY COMPARISON OUR
FIGURES IMPLY STEADY GROWTH OF PRIVATE CONSUMP-
TION DURING THE SECOND HALF OF 1977, FOR EXAMPLE
AND -- EXCEPT FOR THE 2ND QUARTER PUBLIC CONSUMPTION,
TOO, IS PROJECTED AT SMALL BUT STEADY GROWTH THROUGHOUT
THE YEAR. FIXED INVESTMENT IN EQUIPMENT IS PROJECTED
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TO INCREASE BY 13.6 (S.A.A.R.) DURING THE THIRD QUARTER
FROM THE DEPRESSED 2ND QUARTER LEVEL AND BY ANOTHER
8.8 PERCENT (S.A.A.R.) DURING THE FOURTH QUARTER. THE
SECTOR FROM WHICH WE EXPECT THE GREATEST STIMULOUS
DURING THE REMAINDER OF 1977 ARE EXPORTS. WE PROJECT
A 11.2 PERCENT (S.A.A.R.) GROWTH RATE FOR EXPORTS
DURING THE SECOND HALF OF 1977. WITHOUT IT
ECONOMIC GROWTH AS A WHOLE IS UNLIKELY TO REACH 4.0
PERCENT (S.A.A.R.) DURING THE PERIOD. WE EXPECT THE
RATE OF GROWTH OF IMPORTS, HOWEVER, TO BE EVEN HIGHER
(15.6 PERCENT S.A.A.R.) SO THAT INCREASE IN THE NET
FOREIGN BALANCE DURING THE SECOND HALF IS HELD TO
DM 2.3 BILLION (AT 1970 PRICES) AND FOR THE YEAR AS
A WHOLE IT WILL ONLY SLIGHTLY EXCEED (BY DM 1.7
BILLION) THE 1976 LEVEL. THESE CONSTANT PRICE GOODS
AND SERVICES PROJECTIONS ARE ROUGHLY CONSISTENT WITH
THE EMBASSY'S CURRENT PRICE CURRENT ACCOUNT PROJECTIONS
SUBMITTED IN BONN 12573.
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Message Attributes

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Sent Date: 08-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
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Disposition Case Number: n/a
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